



November 14, 2016

The Honorable Pedro Nava, Chairman
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Dear Chairman Nava,

I would like to provide the Commission with information directly responding to the allegations made by Mayor Pauline Cutter of the City of San Leandro in her correspondence dated August 24, 2016 addressed to you and the Commission.

She states that the City is frustrated because the Eden Health District has not "lived up to its commitment" to provide support for San Leandro Hospital. I would like to provide facts that refute this statement as patently false.

First, in the second paragraph, Mayor Cutter states that not only is San Leandro Hospital a provider of critical health care services but an economic driver for the region. That is, to support 400 jobs, which drives the City's economy: perfectly legitimate for the City, but not for the Healthcare District or the area. In 2012, 4.5 miles to the East, Eden Medical Center opened a state of the art Emergency Department and an urgent care center (operated by Sutter Health), with a 72% increase in capacity from earlier (2012, old hospital). The capacity increased from 18 ER beds to 32 beds, ER and Urgent Care.

In 2013, the new Kaiser Foundation Hospital opened just 1.5 miles West of San Leandro Hospital. This hospital has 40 ER beds and contrary to public opinion, Kaiser Hospitals accept Emergency patients just like any other hospital. I know because I was Administrator of two Kaiser Hospitals in Northern and Southern California in the 1990s. That is a capacity for taking care of critical healthcare needs greater than most California communities.

Lastly, San Leandro Hospital is the only owned asset of Alameda Health System, a system supported by taxes and revenues since 2005, for which our communities pay more than \$75 million in special taxes ALONE. I wonder why a \$1 billion health care system needs to put a small public entity out of business to support one hospital for one year! What is going to happen in years two and three? How will this hospital survive? My agency owned this hospital and leased it to Sutter Health until it was "sold" in 2012 (for no money) to them. That leads us to the health care district's "commitment" to San Leandro Hospital.

The Eden Health District (legally the Eden Township Healthcare District) purchased San Leandro Hospital in 2004 and immediately leased it to Sutter Health for the primary purpose of providing a replacement for Laurel Grove Hospital, which was Eden Medical Center's acute rehabilitation hospital. This hospital was going to be torn down to provide the space and parking for the seismically compliant new Eden Medical Center that Sutter Health built and opened in 2012.

Under the terms of the lease, Sutter Health could buy San Leandro Hospital, extend the lease, or return the Hospital to the District. Sutter Health chose to exercise their right to buy, the purchase price being the District's book value minus any losses incurred by Sutter Health while operating it from 2004 to 2009, when the option was exercised. This purchase price, which was the District's book value less the losses suffered by Sutter Health from 2004 to 2009, was -0-! (a hospital which OSHPD records will show losing money since 1999). The District transferred the asset to Sutter Health for no money. That's \$25 million supporting the losses at San Leandro Hospital from 2004 to 2009.

The District refused to sell the Hospital to Sutter Health under the agreement and challenged the agreement itself in court, under pressure from the City of San Leandro, the physicians, employees and patients of San Leandro Hospital, Supervisor Alice Lai Bitker of Alameda County, and State Senator Ellen Corbett.

That lawsuit kept San Leandro Hospital open from 2010 until 2012, when the District lost the lawsuit and had to abide by the contract. The lawsuit and costs of the District exceeded \$5 million. Support for San Leandro Hospital, now totaling \$30 million.

In losing the lawsuit Sutter Health successfully claimed and was awarded damages and costs of \$19.6 million; most of this was the loss incurred by Sutter Health in keeping San Leandro Hospital open for the period of the lawsuit from March 2010 to April 2012 when the District offered to turn over title to Sutter Health. Now, the total cost borne by the District of San Leandro Hospital's losses total \$50 million!

In 2012, in closed door sessions with Sutter Health, Supervisor Wilma Chan made a deal to have Sutter Health turn over San Leandro Hospital AND a sum of money, approximately \$25 million, to Alameda Health System. It was apparently further agreed that the damages paid to Sutter Health (\$19.6 plus interest, approximately \$20 million total) would be turned over to Alameda Health System as well. The District was never a party to this transaction and only learned of the details from the newspaper stories and meetings of the Board of Supervisors.

This has erroneously been made into a commitment of the District by anyone who thinks the District is a source of funds and should be tapped, eliminated if necessary, to provide these funds.

Meanwhile, the District appealed to the Superior Court, provided testimony and was granted the right to pay the \$20 million damages claim over 10 years on the basis of the public interest in services provided by the District being more important than Sutter Health causing liquidation of the assets for its immediate payment.

The Eden Health District provides health education in diabetes care and mental health, our priorities for the immediate future, as well as provides grants to service providers who serve the most under-served areas in our District. If this District does not exist, these agencies and the public will need to find another source for capital and health services such as the self-management of diabetes.

The Commission should not be misled by the claims of a City trying to support its tax revenues by destroying a public entity created by voters of the District. This District is targeted for surviving on its assets and not being on the tax rolls for the last 40 years, while providing services to the Community. Most members of the tax paying public would applaud our efforts in keeping our administrative costs low (11%) and surviving all these years without a tax base.

I hope the Commission will take the same view.

Sincerely,



Dev Mahadevan
Chief Executive Officer

Copy to: Board of Directors, Eden Township Healthcare District
City Council, City of San Leandro
Board of Supervisors, Alameda County
Ken Cohen, Executive Director, Association of California Healthcare Districts